



Quarterly Report Summary

July 1, 2008 to September 30, 2008

Virginia's Museums Need to Improve Internal Controls

As supervisory boards, the museums' Boards of Directors should understand the impact that budget reductions and not meeting admission and other funding sources can have on not only operations, but the administration of the museums. (pages 1-4)

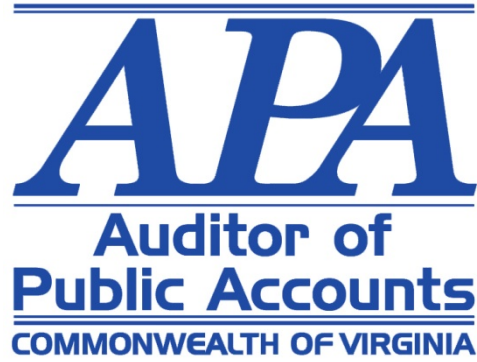
The Commonwealth Can Continue to Improve Capital Outlay Process

Recently enacted changes in the Capital Outlay Process will improve the timeliness and reduce potential overruns, but there are additional opportunities for improvement. (pages 4-5)

Systems Can Enhance Oversight

The Supreme Court of Virginia has several projects underway to modernize its District Court Systems and this modernization could provide the Supreme Court the ability to improve and enhance its oversight of the individual district courts. (pages 5-6)

We will be happy to provide you any reports in their entirety, or you can find all reports listed in this document at our website <http://www.apa.virginia.gov/reports.htm>. We welcome any comments concerning this report or its contents.



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Virginia's Museums Statewide Overview And Issue Alert

August 2008

This report contains the results of our combined audit of the following museums* for the fiscal year ending June 30, 2007:

Science Museum of Virginia	Frontier Culture Museum of Virginia
Virginia Museum of Natural History	Jamestown-Yorktown Foundation
Virginia Museum of Fine Arts	Gunston Hall

* We also refer to these agencies collectively throughout the report as Virginia's Museums.

Brief Overview of Fiscal Year 2008

During the period of this audit and through fiscal year 2008, the Virginia Museums have experienced some significant operating challenges. Jamestown-Yorktown Foundation along with Jamestown 2007 celebrated the Commonwealth's 400th Anniversary with numerous special events and exhibits. Both the Virginia Museum of the Fine Arts and the Virginia Museum of Natural History have had substantial capital projects.

Fiscal year 2008 represents a partial year of more normal operations for the Jamestown-Yorktown Foundation and the first full fiscal year of operation by the Virginia Museum of Natural History in its new facility. The Virginia Museum of the Fine Arts continued its extensive capital projects. Also, the funding for Jamestown 2007 ceases after fiscal year 2008.

Any analysis of fiscal results during fiscal years 2006 and 2007 must consider the activities noted above and also recognize that some of these events also effected the operations of the other museums. Therefore, we are using fiscal year 2007 to make some comparisons with the past and the future. We believe that some type of the analysis is necessary in at least three areas: the museums commitment to obtain 30 percent of their funding from admissions and other sources, the potential affect that not meeting the 30 percent may have, and administrative staffing levels.

Meeting the 30 Percent Commitment

Only the two museums below did not achieve the goal of generating 30 percent percentage of their overall funding from admissions and other sources. Since funding for Jamestown 2007 ceases after fiscal year 2008, we have excluded it from the analysis. Historically, only the Virginia Museum of Fine Arts and the Jamestown-Yorktown Foundation have met or exceeded this goal in each of the past six years.

Table 1

	<u>Special Revenue Collections</u>			
	<u>Special Revenue Estimates</u>	<u>Special Revenue Collected</u>	<u>Difference Over/(Under)</u>	<u>Percentage Over/(Under) Estimate</u>
Gunston Hall	\$ 225,000	\$ 99,920	\$(125,080)	(56%)
Virginia Museum of Natural History	3,004,945	2,435,304	(569,641)	(19%)

As shown in the table below, General Fund Appropriations normally only cover payroll expenses, that includes direct salaries and wages and fringe benefit costs. Therefore, almost all of the other operating costs of the museums must come from the additional funding generated by admissions and other sources. These other collections are therefore critical to the long-term operations of the museums. Failure to meet or exceed these collections could have long term operating implications to a museum.

The non-payroll costs covered by the admissions and other funding sources include utilities, exhibits, insurance and all of the other expenses of running a business. Also, included in these costs is paying for both the operating and long-term maintenance costs of museum buildings and grounds. While management may overcome not meeting these revenue projections in the short term by delaying optional costs, the long term health of the museum and the facilities is dependant on constantly making the projections, which shows the true ability of the organization to generate funding for on-going operations.

While we understand that some questions have arisen in the past about the methodologies used to generate these estimates, we understand that most of the museums have resolved these issues with the Department of Planning and Budget. As we stated earlier, the Virginia Museum of Fine Arts and the Jamestown-Yorktown have consistently met this goal of 30 percent and we believe the Science Museum and Frontier Culture Museum may be able to meet this goal in the future.

Table 2

<u>Payroll Expenses</u>						
	<u>Payroll Expenses</u>	Percentage of Payroll Expenses Supported by General Fund Appropriations	Payroll as a Percentage of Total Operating	<u>Authorized Man Power</u>	<u>Full-time Equivalent Administrative Staff</u>	<u>Administrative Staff Vacant Positions</u>
Science Museum of Virginia	\$ 5,369,394	99%	58%	102	12	1
Virginia Museum of Natural History	2,401,455	125%	70%	52.5	5	-
Virginia Museum of Fine Arts	8,743,450	95%	61%	179.5	22	1
Frontier Culture Museum of Virginia	1,467,334	119%	65%	40.5	5	1
Jamestown-Yorktown Foundation	11,828,742	99%	61%	199	21	1
Gunston Hall	432,702	99%	61%	11	1	-

Funding of Payroll Expenses

As shown above, payroll expenses are a significant cost factor in operating the museums and constitute generally 60 percent of all operating costs. Further, the General Fund appropriation covers most of these costs. A few vacancies allows the General Fund support to exceed 100 percent as noted in the Virginia Museum of Natural History and Frontier Culture Museum of Virginia. Conversely, any cuts in General Funding support would either lead to lay-offs or place additional pressures on raising even more funding from admissions and other sources.

Since most of the museums maintain minimum staffing levels, the loss of funding does have a direct impact on operations. All of the museums, except the Virginia Museum of Fine Arts and Jamestown-Yorktown Foundation have staff who performs more than one function for administrative support. As the museums face General Fund reductions in fiscal years 2008 and 2009, they have had to increase funding from outside sources and reduce optional non-payroll costs. As we will discuss in the next section they have also left administrative vacancies unfilled.

Most of the museums do not have significant other resources to overcome a significant reduction in General Fund resources, and have been reluctant to examine other alternative staffing or resource sharing alternatives. We believe the current General Fund reduction in fiscal years 2008 and 2009 will have an effect on operations.

Administrative Resources and Vulnerabilities

As the museums face General Fund reductions in fiscal years 2008 and 2009, they will need to maintain a proper balance of staff to maintain internal controls and accountability. In addition to the reductions, the job market has been tightening and finding qualified candidates to fill fiscal positions is difficult. Loss of key personnel in some of the museums will also affect the administrative functions ability to operate.

Our analysis above included all administrative positions except the director, deputy director and the building and maintenance personnel. In a number of cases, we could not assign an accurate full time equivalent amount to certain wage employees at both the Virginia Museum of Fine Arts and Jamestown-Yorktown Foundation, which could lower these positions by one or two FTEs.

With the exception of Gunston Hall, all of the museums on paper have sufficient administrative staff to have the minimum level of effective internal control. Only the Virginia Museum of Fine Arts and Jamestown-Yorktown Foundation have sufficient staff to go beyond the minimum levels. However, we would caution the reader that neither of these operations have any depth of Information Technology support and data security support to fully meet the Commonwealth's current mandates and expectations.

Considering that we have included personnel, payroll, purchasing, budgeting, accounting, cashiering, data processing, and financial reporting functions, all of these operations have some or all individuals performing multiple functions, duties, and roles. This environment makes maintaining the minimum levels of internal control at best difficult and the loss of personnel, or an employee who does not perform, can and does strain the process.

Comments on Assessing Risks and Costs

We have made a number of recommendations over the years that have included outsourcing, sharing resources, or other alternatives to address the potential risk of this level of staffing and the risk it causes associated with weakening internal control and potential accountability. Since the museums must all participate in the Department of Accounts' ARMICS program, which evaluates an entity's risks and internal controls and their effect on accountability, we believe that the governing bodies of the museum should use their finance or budget committees to review these documents and determine if they concur with the risks that management may be assuming.

As supervisory boards, the museums' Boards of Directors should understand the impact that budget reductions and not meeting admission and other funding sources can have on not only operations, but the

administration of the museums. We offer these comments since the Boards and management continue to operate in this environment.

Statewide Review of Capital Outlay

July 2008

Our analysis in this report of selected capital projects found that poor planning for capital projects results in the need for more time and more funding to complete the project. Based on projects included in this review, we found that requests for increased appropriations were rarely due to increases in basic construction costs. Increases were usually due to changes in the size, design, materials, and needs and unanticipated site conditions. Therefore, proper and detailed planning can improve the cost estimation process and decrease the need for additional appropriations.

During the writing of this report, the 2008 Special Session of the General Assembly passed a capital outlay bond bill (Chapter 2 of the Acts of Assembly) to fund numerous capital projects and changed the capital project planning and funding process. This Act incorporated a number of recommendations we have made in previous reports on the Capital Outlay and Deferred Maintenance process.

This new Act solidified the process of providing planning funds for projects to ensure better cost estimates before committing funding for project construction. The Act provides funding in three possible stages: pre-planning, detailed planning, and construction. We have attempted to design our recommendations so that they consider the implementation of these new processes.

To implement the requirements in the new capital outlay bond act, General Services received funding to acquire a capital project electronic information management solution. The system will manage the Commonwealth's capital program from project conception through construction closeout and occupancy using a web-based system that includes program management, project management, document management, forms management, work process management, and time tracking. The system will eventually interface with other Commonwealth systems to reduce or eliminate data redundancy. We encourage and support this effort to provide the Commonwealth with a centralized capital project system to capture project cost and schedule data in a single location.

We recommend that the Governor and the General Assembly consider the following.

- Require facility condition assessments and scheduled, periodic updates.
- Expand the current capital budget process to include an implementation plan and annual status report for all capital projects that includes proposed construction schedules, detailed draw schedules, and an estimate of any additional costs for staffing and equipping each project.

We recommend that the Department of Planning and Budget and the Bureau of Capital Outlay Management consider the following.

- Capital Outlay Management and Planning and Budget should ensure that the capital budget submission process captures adequate details related to project cost estimates and cash flow timing to make fiscally responsible decisions and recommendations to the Governor and General Assembly regarding approval of capital project for pre-planning, detailed planning, and construction funding.

- Planning and Budget should create annual status reports on capital projects that include benchmarks by which to assess key measurement figures, identify specific issues, and provide for regular monitoring of financial and project activity.

Office of the Executive Secretary of the Supreme Court of Virginia June 30, 2007

July 2008

Evaluate Managerial Oversight Controls

The Supreme Court has direct responsibility for the oversight of the General, Juvenile and Domestic Relations, and Combined District Courts. The Supreme Court receives appropriations to pay for the Judges and staff of these courts, as well as some other Courts. While, the Supreme Court does pay the salaries of the Circuit Court judges and some other expenses, most of the operational oversight of these courts rests with the elected Clerk of the Circuit Court. Our comments in this area exclude the operational aspects of the Circuit Courts.

In exercising its oversight responsibilities, the Supreme Court provides the courts with a central and uniform case management and financial system, extensive policies and procedures for use of the systems, human resource management, and processing of other financial transactions. Additionally, the Supreme Court operates a help desk to respond to system problems and a Court Services Unit to provide on-site as well as other support functions. Finally, the Supreme Court provides both the Judges and court staff continuing education to understand how changes will affect court operations.

While this process provides the Chief Justice and the Executive Secretary a sound framework to oversee the courts, the current process of oversight still relies on a number of controls and processes, which come from when the courts were independent local courts and had no automation. While Judges and the Court Clerks will always be the key fundamental internal controls in this system, the Supreme Court could improve both the central office staff as well as the Judges and Court Clerks with information, which could improve their oversight and their ability to detect and correct problems and issues.

The current oversight system relies on reaction to problems, which addresses issues after they have occurred. There is limited information that would allow Judges, Court Clerks, or central office staff to analyze and detect potential problems before they occur. If a Court Clerk is not performing their duties properly and it is unclear which Judge had oversight responsibilities, it could lead to problems occurring with court collections, payroll, financial transactions and other matters, which would go undetected until an audit or a complaint from the public.

In both large and small courts, the processing of many transactions does not achieve good segregation of duties or supervisory review. Court Clerks and Judges approve their own leave taken, approve certain financial transactions, review asset and revenue reconciliations, and prepare financial reports without outside review except during an audit. We are not advocating the addition of staff to achieve better internal control, but are suggesting that the Supreme Court should enhance its ability to oversee and review trend information to highlight problems and issues that may be developing.

Since the Supreme Court is undertaking projects to enhance the court management and financial management systems, it would be an ideal opportunity to gather information and develop reports that could identify unhealthy trends in internal controls, financial and performance issues, and begin to address them before a problem occurs or an audit finds major issues. These system changes are also the opportunity to re-

evaluate the way the Supreme Court ensures that its internal control systems are adequate and not depend on one individual recording, reviewing, and approving financial transactions, without either supervisory review or oversight.

Department of Professional and Occupational Regulation for the years ended June 30, 2006, and 2007

August 2008

UPDATE ON SYSTEMS DEVELOPMENT PROJECT

The Department is implementing a licensing and enforcement system called EAGLES that will expand public access through online licensing and permitting services and will also eliminate the maintenance costs associated with their current system. The Department began project execution on EAGLES in October 2007, which will continue through January 2010 when project closeout will take place. The Department will implement the project in three phases. The project cost estimate is approximately \$2.9 million and is currently within budget.

Our review over the EAGLES project began in early 2008. At that time, we noted concerns relating to the status of the project for several reasons including a large amount of customizations to the product, insufficient project documentation, and the absence of a committed, full time project manager. We met with the Department's management in February 2008 and communicated our concerns. After that meeting, the Department's management worked to address some of these issues including hiring a full-time project manager to resolve the project documentation issue and to lead the project team for the duration of the project.

As a whole, the project documentation is still insufficient and the project still lacks plans required by the Commonwealth's Project Management Standard. The project's steering committee ultimately decided to reduce the scope of the project and eliminate many of the customizations causing the resource strain and the schedule delays. The Department now plans to implement these customizations after the completion of phase 3.

The first release of phase 1 went live in June 2008. After going live, the Department discovered several issues with this release; the most severe of which involved data migration problems that forced the Department to suspend parallel processing. In addition to the data migration issues, the Department also found that three separate applications associated with the release were not complete. The project team continues to work on the EAGLES project and address identified issues. We remain cautious that the project will remain on schedule and will continue to monitor this project closely throughout its implementation.

SUMMARY OF REPORTS ISSUED

The following reports on audit were released by this Office during the period July 1, 2008 to September 30, 2008. Those reports which included findings in the area of internal controls or compliance are indicated by an (*) asterisk.

Judicial Branch

Office of the Executive Secretary of the Supreme Court of Virginia Clerk of the Supreme Court Clerk of the Court of Appeals and the Judicial Inquiry and Review Commission for the year ended June 30, 2007*

Independent Agencies

State Lottery Department "Mega Millions" Report on Applying Agreed-Upon Procedures for the period April 1, 2007 through March 31, 2008
State Lottery Department "Win for Life" Report on Applying Agreed-Upon Procedures for the period April 1, 2007 through March 31, 2008

Executive Departments

Office of the Governor for the fiscal year ended June 30, 2008
Office of the Lieutenant Governor for the fiscal year ended June 30, 2008

Administration

Statewide Review of Capital Outlay for June 2008*

Agriculture and Forestry

Virginia Department of Agriculture and Consumer Services and the Virginia Agricultural Council for the year ended June 30, 2007*

Commerce and Trade

Department of Professional and Occupational Regulation for the years ended June 30, 2006 and June 30, 2007*
Virginia National Defense Industrial Authority for the year ended June 30, 2007

Commonwealth

Division of Selected Agency Support Services for the year ended June 30, 2008

Education

Virginia Museums for the years ended June 30, 2006 and 2007*

Colleges and Universities

Virginia Community College System for the year ended June 30, 2007*

Finance

Collection of Communications Sales and Use Tax for the year ended June 30, 2008

Natural Resources

Department of Game and Inland Fisheries for the period April 1, 2007 through March 31, 2008*
Potomac River Fisheries Commission for the year ended June 30, 2007

Public Safety

Department of Corrections and Virginia Parole Board for the year ended June 30, 2007*
Department of Forensic Science for the period July 1, 2006 through June 30, 2008*
Department of Military Affairs for the year ended June 30, 2007*
Virginia Correctional Enterprises for the fiscal years ended June 30, 2006 and 2007*

Technology

Virginia Information Technologies Agency for the period July 1, 2006 through
December 31, 2007*
Wireless E-911 Services Board for the year ended June 30, 2007*

Transportation

Virginia Port Authority Special Review, August 2008*

Special Reports

Report to the Joint Legislative Audit and Review Commission for the quarter April 1, 2008
through June 30, 2008*

Clerks of the Circuit Courts

Cities:

City of Fredericksburg Clerk of the Circuit court for the Period April 1, 2007 through March 31, 2008 *

City of Hampton Clerk of the Circuit court for the Period January 1, 2007 to March 31, 2008

City of Portsmouth Clerk of the Circuit court for the Period January 1, 2007 through March 31, 2008

City of Williamsburg-James City County Clerk of the Circuit court for the Period October 1, 2006 through March 31, 2008*

Counties:

Accomack County Clerk of the Circuit court for the Period October 1, 2006 through March 31, 2008

Botetourt County Clerk of the Circuit court for the Period April 1, 2007 through June 30, 2008

Buchanan County Clerk of the Circuit court for the Period January 1, 2007 through March 31, 2008

Charlotte County Clerk of the Circuit court for the Period April 1, 2007 through March 31, 2008

Essex County Clerk of the Circuit court for the Period October 1, 2006 through March 31, 2008

Fairfax County Clerk of the Circuit court for the Period January 1, 2007 through June 30, 2008*

Lunenburg County Clerk of the Circuit court for the Period April 1, 2007 through June 30, 2008

King George County Clerk of the Circuit court for the Period April 1, 2007 through June 30, 2008*

King William County Clerk of the Circuit court for the Period April 1, 2007 through March 31, 2008

Mathews County Clerk of the Circuit court for the Period January 1, 2007 to March 31, 2008

Northumberland County Clerk of the Circuit court for the Period January 1, 2007 through June 30, 2008*

Orange County Clerk of the Circuit court for the Period January 1, 2007 to June 30, 2008

Powhatan County Clerk of the Circuit court for the Period April 1, 2007 through March 31, 2008*

Prince William County Clerk of the Circuit court for the Period April 1, 2006 through March 31, 2008

Smyth County Clerk of the Circuit court for the Period January 1, 2007 through March 31, 2008

Warren County Clerk of the Circuit court for the Period October 1, 2006 through March 31, 2008

Washington County Clerk of the Circuit court for the Period April 1, 2007 through June 30, 2008

Wythe County Clerk of the Circuit court for the Period April 1, 2007 through March 31, 2008*

State Accounts

Cities:

City of Waynesboro– July 1, 2007 through June 30, 2008*

Counties:

County of Appomattox – as of June 30, 2008*

County of Buchanan – as of June 30, 2008
County of Fluvanna – as of June 30, 2008
County of Franklin – as of June 30, 2008
County of Giles – as of June 30, 2008
County of Halifax – as of June 30, 2008
County of King George – as of June 30, 2008
County of Lunenburg – as of June 30, 2008
County of Montgomery – as of June 30, 2008
County of Pittsylvania – as of June 30, 2008
County of Powhatan – as of June 30, 2008
County of Prince Edward – as of June 30, 2008
County of Prince George – as of June 30, 2008
County of Spotsylvania – as of June 30, 2008

*Denotes management control finding